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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 002365

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SUBJECT: ECONOMIC CONFERENCE - CROSS-STRAIT CONSENSUS  
POSSIBLE

REF: TAIPEI 1644

Classified By: AIT Acting Deputy Director Charles E. Bennett, Reason 1.  
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¶1. (C) Summary: Taiwan's Sustainable Economic Development Conference has been rescheduled to July 27-28. Planners are optimistic that members of the pan-Blue opposition will participate, although only in a personal capacity. Cross-Strait issues will dominate the agenda with progress possible on direct transportation links, tourism, and liberalization of investment restrictions. The Chen administration appears ready to move forward on cross-Strait liberalization. However, implementation of some of the conference's recommendations will require cooperation from the PRC or opposition-controlled Legislative Yuan (LY). End summary.

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¶2. (U) Taiwan's Sustainable Economic Development Conference will take place July 27-28. Participants in the conference will discuss a broad range of economic issues facing Taiwan to seek consensus for policy recommendations, in the same mold as the Economic Development Advisory Conference in ¶2001. The conference was initially proposed in November 2005 by the Chen administration during the campaign for island-wide local elections. It was originally slated for December of last year. Since then it has been postponed at least four times. Recent discussion of postponing the conference again to September 2006 caused some observers to doubt it would take place at all.

¶3. (C) Chairman Hu Sheng-cheng of the Council for Economic Planning and Development (CEPD), which has been charged with organizing the event, recently told AIT/T that some participants had proposed delaying the conference until September to allow more time for preparations. However, Hu's CEPD argued that if the conference was held so late in the year there would not be adequate time to implement any recommendations that might emerge from it during the fall 2006 Legislative Yuan (LY) session. Hu also pointed out that Taipei and Kaohsiung mayoral elections in December could further interfere with implementation. At CEPD's urging, the conference was moved back to July. Preparations now appear to be on schedule with preliminary

meetings underway.

#### Indirect Pan-Blue Support

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¶4. (C) Hu was optimistic about the prospects for a successful conference because the opposition Kuomintang (KMT) and People's First Party (PFP) would participate even though they might not explicitly endorse the conference. Hu explained that KMT chairman Ma Ying-jeou supported the conference but had left the decision on whether the KMT would participate to the KMT's LY caucus. The caucus decided that the KMT would not participate officially. However, according to Hu, the KMT's think tank, the National Policy Foundation, will nominate 15 KMT members to attend the conference in a personal capacity rather than as representatives of the party. Prominent Pan-Blue People First Party members, including LY Vice President Chung Jong-chi and LY member Christina Liu have also agreed to attend as individuals rather than as party representatives. In addition, LY President Wang Jin-pyng and former KMT Vice Chairman Vincent Siew will co-chair the conference with Premier Su Tseng-chang. However, the Pan-Green Taiwan Solidarity Union has indicated that it will not participate if the conference includes discussion of the relaxation of cross-strait restrictions.

#### Can Cross-Strait Controversy Become Consensus?

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¶5. (C) Attention at the conference will focus heavily on cross-strait economic issues. The health care system, the pension system, and financial sector reform will also be on

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the agenda but won't generate the same level of controversy or interest among the public. Cross-strait issues to be discussed will likely include direct transportation links, PRC tourism, industry restrictions on investment, and capital limits on investment. Chung-hua Institute for Economic Research (CIER) President Ko Chen-en and his counterpart at the Taiwan Institute for Economic Research (TIER), David Hong, agree that consensus is most likely to emerge on direct transportation links and PRC tourism. Both told AIT/T that liberalization in these areas had the most potential for improving Taiwan's economy quickly.

¶6. (C) Hong also believes that the conference might result in the relaxation of restrictions on the activities of Taiwan financial institutions in Mainland China. On July 10, one of the preparatory committees revealed that it had reached a preliminary consensus that Taiwan should negotiate financial supervisory mechanisms directly or indirectly with the PRC so that PRC banks could be permitted to open representative offices on the island. This could in turn lead to further opening in the PRC for Taiwan banks. Committee member Christina Liu told the press that she believed industry organizations in the financial sector could lead these discussions under the "Macau model" used to negotiate charter flights.

¶7. (C) In addition, Taiwan's industry associations have made alternative proposals to relax the capital limit on investment in Mainland China. The Chinese National Federation of Industry has proposed that the ceiling on investment be raised from 40 percent of a firm's capital to 50 percent. The Taiwan General Chamber of Commerce suggests that investment in the PRC should be aggregated and limited to a percentage of Taiwan's GDP instead of putting a limit on each firm's investment.

#### Premier has Authority and Pressure to Produce Results

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¶8. (C) CIER's Ko believes that the Chen administration is ready to move forward with substantial cross-strait

liberalization. He observed that President Chen's May 31 announcement that he would delegate much of his authority as president to Premier Su meant that Su might now have the power to make changes to cross-Strait policy. Ko also commented that Su was much more practical in terms of cross-Strait policy than many other more ideological Democratic Progressive Party (DPP) leaders and would have two years as premier to show progress on economic growth before running for president in 2008. Ko argued that Taiwan's middle class feared the island was falling behind the Mainland economically and that the DPP needed to show that it can manage the economy.

Comment - Next Step: Implementation

19. (C) The recent announcement of a new package of charter flights and the lifting of restrictions on investment in the semiconductor packaging and testing industry suggest that the Chen administration has concluded that further opening of economic relations with Mainland China is necessary. This will make it easier to reach a consensus on cross-Strait issues at the conference, but implementation may still prove problematic. Implementation of some proposals may require cooperation from the PRC or the opposition-controlled Legislative Yuan. Nevertheless, as TIER's Hong observed, even implementation of 30 to 40 percent of the proposals that come out of the conference would be a significant achievement. End comment.  
YOUNG